Audit's NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

Realty Trust Review

September 12, 1975 VOL. VI, No. 17

VALUE GUIDE TO SIX TRUSTS REVIEWED THIS ISSUE

Trust	Rel. Appeal	Port. Yield	-12 Mo.Port.Chng.- Last	E.Next	Lever Ratio	Price	Ann. Yield**	Div. Reinv.	Page
Hospital Mtg.	4	10.85%	9%	0%	0.51	$ 5.63	10.7%	No	7
ICM Realty	3	8.91	22	0	0.70	8.88	15.8	No	8
PNB Mtg. & Rlty.	4	9.06	3	0	2.39	4.75	8.4	Yes	5
Realty Income	3	11.70	28	0-5	1.54	5.50	10.9	No	6
Realty ReFund	3	11.59	3	-2	1.56	12.00	16.0	No	4
United Rlty.	4	6.41	1	0	0.37	5.38	14.1	No	4
AVERAGE		9.75%	11%	0%	1.18		12.6%		

**Based on annualized latest qtr.

A reminder: Our seminar on HIDDEN OPPORTUNITIES IN DISTRESS REAL ESTATE PROJECTS will be held Sept. 29-30 in San Francisco immediately before the NAREIT convention. Use registration material previously sent or call collect for details.

MORE REIT BANKRUPTCIES: FIRST MORTGAGE INVESTORS FIGHTS FOR LIFE

The oldest and third largest construction lending trust, First Mortgage Investors of Boston and Miami Beach, has entered a final climactic fight for life and the outcome will have profound impact upon the survival prospects for many other troubled REITs and untold thousands of REIT shareholders and bondholders. The options and possibilities facing investors are far more complex than newspaper reports have suggested and full understanding is vital.

At stake are the popular asset swap programs and privately negotiated debt restructuring plans being pressed by commercial banks to keep troubled REITs going. If either or both come a cropper, you can look for perhaps as many as six other REIT bankruptcy filings this year. These major events are shaping FMI's future:

1. Chapter X involuntary bankruptcy filing. Four New York State savings banks petitioned a Federal court in Boston to appoint a trustee to manage FMI's affairs and properties. FMI vows to oppose the petition vigorously and the court has given FMI permission to continue operating while the matter is heard.

An involuntary Chapter X petition is seldom used in such major cases and thus investors are generally unfamiliar with what happens next. Legal sources familiar with bankruptcy sketch out these requirements and possibilities. First, the petition's filing brings FMI under court jurisdiction for a major court hearing upon both factual and legal questions. That hearing could take some time. Second, a frequent response to an involuntary Ch. X filing is to try and switch the proceeding to a voluntary Ch. XI proceeding in allowing the debtor to remain in possession of its affairs. Third, FMI is pressing a privately negotiated debt restructuring which probably provides its best defense for now.

Allegations of the complaining banks, which own $3.4 million of FMI publicly

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offered senior debentures, will be examined in detail by the court. The fact that the banks hold less than 1% of FMI's outstanding debt is immaterial in such cases; the petition will be ultimately decided on these issues:

a. Is FMI insolvent? The complaining banks point to the fact that FMI's balance sheet shows negative net worth of about $45 million on last Jan. 31 and of $68.3 million on July 31. FMI points out that its pending debt restructuring would convert $68.6 million of bank interest and subordinate debt into preferred stock, reversing negative net worth and boosting net worth to about $21.3 million. The test of insolvency is essentially whether the trust property at fair valuation is sufficient to pay its debts, and evidence must be taken on that point.

b. Is FMI's debt restructuring plan unfair and inequitable? The savings banks claim that the restructuring, to be voted upon Oct. 23, would be unfair to holders of publicly offered debt and would unduly favor holders of private debt, because they have been the only ones involved in restructuring negotiations. Ch. X proceedings stress openness and fairness and the right of all classes of creditors to be heard. (Ch. XI, on the other hand, is essentially a privately negotiated proceeding with little open court hearings and generally involving only unsecured creditors.) The accusation of unfairness thus raises questions of public policy and it is possible that the SEC may wish to be heard on this question, since FMI has issued about $89 million of outstanding public debt (about 16% of $541 million total debts). The savings banks contend that FMI's debt and capital structure can be adjusted "best, if at all," under Ch. X.

c. Is FMI's loan swap plan a preference to some creditors? The banks point to FMI's June 30 exchange of a defaulted loan to Ford Motor Credit Co. in return for cancellation of a $3 million note and say this action enabled Ford "to obtain a greater percentage of its debt that some other creditors of the same class." The Ch. X petition effectively halts FMI's asset swap program which it had been counting on to reduce debt by $100 million by next January. Already FMI and 10 banks have exchanged $16.4 million loans and properties for $17.6 million considerations ($12.9 million cancelled notes, $3.97 million cash, $0.66 million in forgiven interest). Moreover, another 22 banks have agreed to exchange $39.4 million in loans for $44.2 million considerations (including $34.1 million cancelled notes and $8.8 million cash). The loan swap programs are vital for FMI which says it "constitutes the only source of additional funds" now available.

By extension the Ch. X filing chills all other asset swap programs for other trusts, in the view of knowledgable attorneys. In asset swaps, a trust exchanges an asset with a bank, the bank generally cancelling its note to the trust and paying some cash. They became popular last spring as a way trusts could jettison recalcitrant banks (see RTR, May 9) and now have evolved as a major device for possibly lightening the debt load of troubled construction-lending REITs. About $600 to $800 million of loans are said to be involved in pending swap programs. Some attorneys have questioned whether they constitute a preference to one class of creditors and are thus open to challenge under bankruptcy laws. The FMI filing joins this crucial issue for many other trusts.

2. Proposed vote on debt restructuring. Five days after the Ch. X filing, FMI began circulating a long-awaited proxy statement seeking shareholder and debtor approval of a complex restructuring plan unveiled last April (RTR, April 11). The agonizing wait speaks volumes about complexity of such plans and the proxy statement details how desperately ill FMI has become. Indeed, FMI cannot offer assurance that the plan will ever be carried out even if all approvals are given, or that the restructuring can stave off eventual bankruptcy. Non-earning investments have now risen to about 80% of holdings (or $513 million non-earning and foreclosed property out of $645 million investments before the loss reserve). "If the restructuring is not accomplished, it is virtually certain that the trust will end up in some proceeding under the Bankruptcy Act," it says. The restructuring involves these elements:

Bank lenders of a $400 million revolver will convert $23.6 million of interest accrued between last Sept. and Jan. 31 into a Series A preferred stock, carrying 4%

dividends cumulative for two years, with a $100 (par) preference in liquidation, and convertible into shares at $7. In addition the banks would reduce their interest rate from 130% of the prime rate (currently 10.1%) to the greater of 1% or the trust's earnings up to the Federal Reserve discount rate (now 6%). Any shortfall between actual interest and the discount rate will be carried as a contingent liability and remain payable until Sept. 16, 1986, when it would be forgiven. The banks would receive $13.6 million in cash immediately to reduce principal.

Insurance company lenders under a $50 million private placement of subordinate debt would accept $5 million cash now and convert $45 million into a Series B preferred with no regular dividends, a $100 liquidation preference, and convertible at $10. They would also forgive $5.2 million accrued interest.

Public debt holders of nine separate issues totaling $88.9 million are asked to waive past failures to comply with convenants and forego the right to accelerate maturity under certain terms. Interest on all these issues is now current. A majority of each issue must approve, except that two-thirds of holders of $16 million in 9% senior debentures due 1978-75 and of $25 million of 8¼% senior debentures due 1977 must consent.

Holders of the 9% senior debentures due 1978 but having an option to take early maturity Nov. 1, 1975 are being asked to make numerous special concessions. They are asked by two-thirds vote to forego the early maturity and to accept 25% payment this Nov. 1, followed by 10% principal payment each following six months until the remaining 25% is repaid Nov. 1, 1978. Interest would remain at 9%. About 82% of these debt holders have already asked for early redemption and they must revoke such election and vote for the new repayment schedule by Oct. 10. Without these changes by the 9% debt holders, the entire restructuring plan could founder.

Shareholders must approve issuance of the preferred stock to the lenders, and must also ratify certain other changes including one letting FMI operate without qualifying as a REIT.

3. SEC probe settlement brings management reorganization. Simultaneously former FMI managers settled on Sept. 5 litigation arising from a lengthy SEC probe of the trust's past dealings. The settlement, to which defendants consented without admitting guilt, ended FMI's retention of an outside investment adviser and internalized trust management. The settlement also provides for FMI to elect five new trustees during the coming months who have had no former involvement with the trust.

The SEC complaint ending a lengthy investigation cites numerous allegations of FMI former management reacting to pressures to produce earnings per share gains with transactions which have now been cast into doubt. Some of these transactions were detailed in a Forbes magazine article last January.

REIT BONDS: NJB PRIME INVESTORS TENDERS FOR ITS BONDS AT 20-CENTS ON THE DOLLAR

NJB Prime Investors, troubled combination trust sponsored by New Jersey Bank and Prime Motor Inns, is tendering to buy back up to $25 million of two debentures at 20% of par. The extended offer expires Sept. 22. NJB's banks will lend up to $5 million to let the trust buy back the bonds, which were trading at about 10-12 before the tender. If the full $25 million is tendered, NJB's gain would swing book value from a negative $3.05/share to a plus $10.99 per share. Issues being sought are the 7% subordinate debentures of 1980 and the 6 3/4% debentures of 1991 convertible at $21. The 7s of 1980 were originally issued with detachable warrants to buy shares exercisable at the average share trading price in the last half of March 1977; thus tender of the full $25 million would tend to increase book value and bolster these warrants. On balance we think most investors will want to tender and get out of this speculative situation, even if it means taking a capital loss. A possible alternative is tendering part of holdings and keeping the rest to await future developments; small amounts of such junk bonds might be illiquid, however.

The offer may spark other tenders, although the economics don't really work out unless bonds are selling in the 10-15 range. Again these are obvious distress situations suitable only for speculators willing to assume great risk.

REALTY REFUND TRUST (12--ASE-RRF) FY Jan. 31

Portfolio dynamics: Fundings were essentially flat over the last year, up 3%. During fiscal 1975, one new wrap-around mortgage loan was made. This was for $640T around a $1.95M first mortgage on a shopping center in Richmond, Ind. Future portfolio growth will depend on obtaining financing. Since no additional funds are seen for the moment, one must tentatively assume there will be no consequential portfolio growth the next few quarters. Specializing in refinancing existting properties, all investments are wrap-around loans (these encompass an existing first mortgage which the lender takes over and provides the borrower with additional funds) except for one land purchase leaseback and one intermediate-term junior mortgage.

The trust's loans are essentially in the east and geographically diverse. There are seven loans in Pennsylvania, three each in Maryland and Ohio, two each in Illinois, Florida, Michigan, Virginia, Texas and New York and one each in Indiana and Alabama. By property type, the trust's cash investments are 43% apartments, 22% office buildings, 8% shopping centers, 8% motels and 19% industrial.

Payments on all loans are current and were made throughout the recent difficult period. The trust's adviser feels its properties weathered this period well during which the entire real estate industry faced lost income during recession coupled with contradictory higher operating costs. Through property reports provided by owners (borrowers), it believes all properties are in better shape this year than last with operations giving better cushion. Properties are never new, most are four to eleven years old, the office buildings are 40 and 50 years old, but the largest one for example, Insurance Exchange Building in Chicago, is thoroughly modernized.

Financing: Trust is financed 39% by capital and 61% by non-convertible debt. Capital is all equity, 1,045,000 shares and 1,013,000 warrants are out. Debt of $30M is half bank credit lines floating ½% above prime plus 10% and 10%, and the other half is under a four-year credit which went to 8 7/8% on Aug. 1, 1975. The four-year line was 9 5/8% during the previous year. Thus 30% of funds float with market rates. The trust is discussing obtaining additional funds with banks, pension funds and other institutions. Nothing conclusive is in the works and the parameters are open to the adviser's consideration to include anything that would work out positive to the trust at all times such as a varying interest with limits. Sponsor: Independent; principals own 100,700 shares, nearly 10%.

Results & outlook: The trust has compiled one of the best records in the industry although the July quarter earnings and dividend of $0.48/sh. were below the peak 1973-early 1974 interim when low money rates enabled the trust to derive a larger spread on the small portion of floating borrowings and earn $0.59. The trust has remained reasonably profitable and never experienced a problem loan. Further recovery should be shown in the October quarter if the prime does not rise again because even though the floating rate will average higher than during the July quarter, benefit is derived from the drop on the other half of borrowed funds going to a lower rate this year. Renewed portfolio growth depends on obtaining additional financing which could come about from this record gaining institutional confidence. In the meantime, the shares are purchaseable for their 16% yield which should be maintained within modest fluctuations. (BS)

UNITED REALTY TRUST (5½--ASE-URT) FY Nov. 30

Portfolio dynamics: There was a 17% gain in the portfolio during the past year and management expects no growth in the next twelve months. By choice of management, new commitments are not being made. Present commitments include $2 million in standbys where disbursement chances are slim and $9 million of other yet unfunded commitments. The portfolio is 66% mtg., 24% GNMA securities and 10% property acquired through foreclosure. By loan type, mtg. and property

acquired are 50% long-term, 35% construction, 10% property acquired and 5% land development. Mtg. and property by type of project are 38% office buildings, 22% commercial, motels and shopping centers, 20% apartments, 12% industrial and 8% other. The trust views its investments in GNMAs as a long-term investment and does not intend selling them. United has non-earning assets of $29.9 million or 34% of portfolio. The total includes 10 loans for $19.3 million and five properties acquired through foreclosure of $10.6 million. The ten non-earning loans include a shopping center in Laredo, Texas, an office building and hotel in Denver, Colorado; a 300 unit apartment in Margate, Fla.; land in Raleigh, N.C., an office building in Rosslyn, Va., an office building (30 S. LaSalle) in Chicago, Ill., land in Spring Green, Wis., condominiums in San Juan, P.R.; a 336-apartment unit in Westville, N.J., an office building in Fairfax, Va. The five properties acquired through foreclosure are a 936-unit apartment in Pasadena, Texas, an office building in Odessa, Texas; a motor hotel in Ocoee, Fla., 150-unit apartment in Houston, Tex.; an office building in Houston, Tex. Eight of of these investments were participations with LMI Investors, formerly operated under parallel management. United has now become separately managed and maintains its independent voice in workout of these eight properties. Stickiest problem appears to be a $1.4 million second mortgage participation in 30 S. LaSalle, 42-story Chicago office building now in foreclosure by the first mortgage holder. URT believes it can recover from collateral pledged by previous developers.

Financing: United is funded 73% by capital and 27% by non-convertible debt, resulting in a very low leverage ratio. Capital of $64.5 million is all equity with 3.61 million shares. Debt is $23.9 million and is 63% long-term bank debt and 37% short-term bank debt. Some 27% of funds float with market rates. United has short-term bank debt amounting to $9 million with five banks. The trust is presently working on a revised bank agreement. One part of this new agreement will let the trust pay dividends based on return of capital. United announced it was hoping to pay a $0.25 dividend for the rest of fiscal 1975 but bank agreement is necessary. Trust hopes to pay any shortfall of earnings to this dividend as a fiscal year makeup dividend. Sponsor: CNA Financial, a financial service company. CNA Financial is about 56% owned by Loews Corp., New York holding company. Control of the manager of United has been obtained by the Loews Corp.

Results and outlook: Aug. qtr. results should be available shortly and it appears they will be about level with the $0.19/sh. of the May qtr. The hoped for $0.25 per share dividend does not look like it will be paid in the Aug. qtr. since the banks have not reached a new agreement. Non-earning loans have not gone up in the Aug. qtr. but it will require a significant decline in troubled loans before significant earnings gains can be expected. Shares maintain the No. 4 ranking (below average) until clean-up progress becomes clearer. (VCK)

PNB MORTGAGE AND REALTY INVESTORS (4 3/4--NYSE-PNI) FY Sept. 30

Portfolio dynamics: Fundings increased 3% in the past year but in the next year a gradual contraction is likely. No new commitments are being made and there are $8 million of existing commitments. There is sufficient financing to fund these commitments. The portfolio is predominantly mortgage loans but includes significant equity holdings including the 860-unit Chestnut Hill apartments and Market Square shopping area in Philadelphia. By investment type, the portfolio is 37% construction and devel., 31% permanent, 15% real estate owned, 6% each standing and juniors, 4% land acquisition and 1% real estate partnerships. The portfolio by project type is 47% apartments, 22% condominiums, 15% office building, 10% commercial, 4% undeveloped land, 1% each industrial and mobile home parks. Investments are located in 14 states with concentrations in Pa. - 27%, Ohio - 14%, and Fla. - 10%. About 31% of the portfolio floats with market rates. Another 13% have floating features but these loans are non-earning.

At June 30, there were 12 non-accruing loans for $20.3 million and foreclosed property of $637T totaling 14.2% of the entire portfolio. By project type these loans are apartments ($9.0M) - 43%, condominiums ($7.2M) - 37%, office buildings ($1.1M) - 6% and land loans ($3.0M) - 14%. The $637T in foreclosed property are all land loans located in Calif. Foreclosure proceedings have been started on six of the non-accruing loans and these loans total $8.3 million. The trust has also granted interest rate reductions on seven loans for $16 million.

Financing: PNB is funded 29% by capital and 71% by non-convertible debt. Capital of $45.2 million is all equity with 2.44 million shares. Debt of $108.2 million is 30% commercial paper, 28% short-term bank debt, 14% revolving credit loans, 14% long-term bank debt and 14% fixed rate mtg. About 61% of funds float with market rates. Bank lines amount to $66 million and no revolving credit agreement is planned. Commercial paper, rated F-1 by Fitch, is sold through the Philadelphia National Bank. Sponsor: Philadelphia National Corp., one-bank holding company and its subsidiary Colonial Mortgage Service Co.

Results & outlook: Latest quarter results (June 30) were helped by reduced interest expense. An increase in non-accruals caused gross revenues to fall slightly. The Sept. qtr. is the fiscal year end for the trust and so results are not expected for at least several weeks. A loan-by-loan analysis may bring non-accruals higher and the holding cost rule could bring higher loss reserves. Trust shares retain their No. 4 ranking pending a completion of the year end audit. (VCK)

REALTY INCOME TRUST (5½--ASE-RIT) FY Apr. 30

Portfolio dynamics: Fundings grew by 28% the last fiscal year, ending April 30, but nearly all gains were due to foreclosure of land purchase/leasebacks and addition of the mortgage debt assumed to RIT's balance sheet. Holdings of this 13 year old equity trust initially were assembled to blend aggressive land and development investments with conservative net leases; a public financing in 1969 enabled growth to a larger and diversified national portfolio. Holdings of $94.9 million at April 30 were 14% land purchase/leasebacks, 29½% improved property, 7½% unimproved property, 15% construction loans, 21% other first mortgages, mainly long-term, and 13% junior mortgages. Thus about 27% is in subordinated positions of either leasebacks or second mortgages, and another 7½% in unimproved property. By property types, holdings are 36% apartments, 25% office building, 6% condominiums, 9½% development properties, 9% shopping centers, 6% mobile home parks, 5% industrial properties, and 3% hotels.

On a statistical basis RIT has encountered its share of problems in this real estate depression and 31.6% of investments are in non-earning or foreclosed properties at April 30. These break down 28½% foreclosed properties, 2.7% in non-earning mortgage loans, and 0.4% in a non-earning land purchase/leaseback. In addition, interest below original rates is being accrued on another 4½% of loans. Over two-thirds of these problem investments or $20.8 million result from foreclosure during fiscal 1975 on three apartments from the 1973 bankruptcy of Walter J. Kassuba. The Trust initially invested $3.75 million in the three apartments (416 units and 504 units respectively in Hoffman Estates and Palos Hills, Ill. and 280 units in Smyrna, Ga.). Takeover involved assumption of $16.3 million first mortgages and RIT has spent about $1 million for back taxes, legal costs, etc. Occupancy has moved over 90% in one Chicago project and is over 80% in the others. The Trust intends keeping a long-term interest in the units and is in the process of selling one with wrap-around mortgage financing. This would relieve depreciation charges and unproductive investment (all are cash-flow negative now).

Other foreclosed problem are generally small and some are improving. A $1.65M net investment in a condominium planned unit development in El Toro, Cal. is being sold to a developer at a slight profit; $400T net investment in an Oklahoma City medical office building, now being rented under an agreement which could lead to its sale; $510T in a Oklahoma City site being developed for an office park;

and $1.48M in homesite sales contracts in Galveston, Tex., gradually being liquidated under a workout plan adopted in 1971. Non-earning investments include a $1 million condo construction loan in Elizabeth, N.J.; a $500,000 subordinate mortgage on Westland, Mich. apartments; and $1.0 million undeveloped land in Maple Grove, Minn. and Pinellas County, Fla. In addition RIT intends to sell a $2.85 million undeveloped tract at Perris Valley near Sun City in Riverside County, Calif.; an option on the land expired last December.

Financing: Trust capital of $98.2 million is 39% capital and 61% non-convertible debt. Capital of $38.7 million is slightly over half in shareholder equity (with 1.56 million shares) and the rest in 8% debentures convertible at $16½. Non-convertible debt of $59.5 million is 34% in a term bank loan at 1½% over the prime rate with no compensating balances; 36% in fixed-rate mortgages, most assumed with the Kassuba properties, and 30% in demand loans to banks at the prime rate with normal compensating balances. Sponsor: RIT became self-administered when the contract with Westminster Properties expired April 30. RIT originated to serve major pension trusts of the Textron group of companies and pension funds own about 20% of shares; another 20% are owned by Industrial National, Rhode Island's largest bank holding company.

Results & Outlook: July quarter EPS fell to $0.08 vs. $0.23 the prior year and zero earnings after a $0.29 capital gain in the April quarter. A 15-cent dividend was declared, partly from prior year earnings. Fiscal 1975 (April) earnings of $0.55/sh. included $0.29/sh. from sale of three mobile home parks in California and Nevada, an apartment in Dover, Del. and industrial land in Everett, Mass. RIT has consistently realized capital gains on portfolio sales over the past five years, such amounts ranging from $0.24 to $0.33/sh. each year, and this policy can be expected to continue. Near-term results will continue to be burdened by depreciation charges and significant progress in reducing unproductive assets must be made to increase earning and dividends. Management is moving in this direction although all real estate workouts take time. Shares retain their No. 3 ranking as an average holding for longer-term investors. (KDC)

HOSPITAL MORTGAGE GROUP (5 5/8--ASE-HMG) FY Feb. 28/29

Portfolio dynamics: The portfolio increased 9% the past year but no growth is anticipated in the next year as there are no new commitments. Only $1.6 million commitments remain. The portfolio is 87% mtg. and 13% real estate owned. Mtg. loans by type are 43% construction, 26% land and land development, 18% permanent and 13% standing loans. By project type, the mtg. are 40% hospital and medical facilities, 28% residential, 26% land and land development, 5% shopping centers and 1% commercial. Real estate owned consists of three garden-type apartments: 138-unit Carriage House in Temple, Tex., 125-unit Casa Grande in Oklahoma City, Twin Ridge in Green Spring Valley, Md. All were acquired through foreclosure. Also included in real estate owned is an undeveloped tract in Osceola County, Fla. which was acquired through foreclosure and wrote down by $251,000. Investments are located in 9 states and P.R. with the majority in Fla. At present, five loans are non-earning totalling $7 million or 17.6% of the portfolio. Properties acquired mentioned above total $4.8 million or 12% of the portfolio. The five non-earning loans include a land development loan (Sailboat Keys) in Miami, where foreclosure was instituted by the lead lender; a participation in a construction loan on the 204-unit townhouse condominium in Sunrise, Fla; a construction loan on a completed 55-unit condominium in Sarasota, Fla. in which the borrower filed for bankruptcy; a participation in a construction loan on a 94-unit completed condominium in Deerfield Beach, Fla.; a land development loan for an industrial park in P.R.

Financing: Hospital is funded 66% by capital and 34% by non-convertible debt. Capital is all equity, 1.2M shares. Debt of $13.7 million is 90% bank lines and 10% mtg. About 30% of funds float. Sponsor: The adviser is 50% owned by R.H. Medical Services, a medical services firm, and 50% by Courtland-Transco.

Results & outlook: August results do not appear to be much above that of the May qtr. Gross revenues may be down a bit as one more loan became non-earning. August quarter interest rates will be slightly higher than May. Portfolio growth is lacking. Trust shares retain their No. 4 ranking based on this rather lackluster outlook. (VCK)

ICM REALTY (9--ASE-ICM) FY Nov. 30

Portfolio dynamics: The trust's investments climbed 22% over the past year. This was attributable almost entirely to foreclosures and assumptions of prior mortgages. Only minor deliberate investments were made, these to round out initial positions. Commitments have been run down to where they are practically nil. The only portfolio growth that may take place over the year will be from foreclosures which assume prior mortgages. On Nov. 30, 1974, breakdown by investment was 56% land purchase-leasebacks, 8% junior mortgages on property with land purchase/leasebacks, 2% jr. mortgages convertible to leasebacks, 9% other jr. mortgages, 15% first mortgage land loans, 5% first mortgage on property with leaseback, 3% const. loan convertible to leaseback and 2% owned property. By May, 1975, wholly owned property had ballooned to 25%. Mix by property type was 45% apartments, 26% shopping centers, 15% land to be developed, 9% hotels and 5% office buildings, etc.

As of May, 1975, the trust's problems consisted of $14.9M loans, $5.4M acquired properties and $19M underlying mortgages which it assumed under foreclosure; a $39M total, 39% of investments. Some are earning but paying late, making the tabulation a conservative accounting. The mortgages are being partly covered but are a drain in the aggregate. The major problems are the following: An owned 30T sf office building in San Antonio, Tex., $894T, has nominal return. In Pasadena, Tex., 6.5 acres at $480T are held. A 175-unit garden apt., $3.49M, in Raleigh, N. C. is held. A 200-unit garden apt., $3.38M, in Nashville, Tenn. is held. Trust has about $9.6M in Chicago apartments being worked out. Trust has a $593T land loan in a Gastonia, N.C. shopping center which is ten months late in land rent. There is a $277T jr. mortgage on 48T sf office building in Richardson, Tex. which it is trying to foreclose. Last quarter, the trust got title to a 484-unit condo in Tyson's Corner, Va., a Washington D.C. suburb on which it had $2.95M jr. mortgages and a $11.5M construction loan remains. About 10% of this project has been sold and the construction loan will be paid down with proceeds from further sales.

There was finally some movement in the biggest problem package, the six land loans for $9.6M on Kassuba Chicago apartments. In July, the first transaction was made, sale of $1.5M land loan for $1M cash and $0.5M notes of a financial institution. The funds will be invested in some other of the ICM - Kassuba properties. Announcement on some of the other five loans is hoped for shortly, a linked series of transactions. Since the trustees did not increase the loss provision while negotiations were being shaped, it is a fair bet no major negative change in judged value will take place although the sale is a change from the original plan announced a year ago. Ultimately only time will tell how well any proposed transaction works out. The trust has already lost many months of interest since Kassuba filed bankruptcy and tied up his properties. Most important fundamentally, demand remains strong for lower priced apartments in Chicago, which should lend support to secondary lien holders like ICM.

Financing: Trust is 59% capital and 41% debt. Capital is all equity, 3.01 million shares. Debt of $41.7 million is 54% bank debt and 46% fixed mortgages (mostly on acquired properties). Thus 22% of funds float. Sponsor: Independent, Investors Central Management, manager of mortgage portfolios for pension funds.

Results & outlook: Operating earnings should hold at about recent depressed levels for the next few quarters. Overage contribution from healthy properties should continue rising moderately. Some major problem situations should be meaningfully ameliorated in time. The 3 ranked shares are a speculative purchase for supportive yield and partial recovery. W.T. Grant, troubled large retailer and major tenant in some of ICM's land-leased shopping centers, has requested its landlords to drop rents 25%. (BS)